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MARKET REPORT

European Mixed-Use Resort Development in 2009

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How to create a lasting mixed use resort that meets the needs of tomorrow? Who are the customers and investors of tomorrow? What are the trends in legal structures? Do you have the Right Stuff for a successful mixed use resort development?

For many, mixed-use resort development simply involves the addition of residential units to a standard resort concept as part of a sometimes rather dubious way to finance the whole development. Off-plan sales are the key, coupled with a branded hotel and promises of rental guarantees for several years.

It may have started with golf, a notoriously difficult way to make money, but not quite so bad if you can build a good course and some equally attractive real estate for those Baby Boomers we all hear about so often.

Hotel operators, especially at the top end of the market, found that their customers rather liked the idea of owning property where they could also enjoy the benefits of hotel-style service and even the chance to earn some rental income.

The idea of premium branding was created (some leading exponents being Four Seasons, Mandarin Oriental and Trump) and a marriage was made between the Condo Hotel model (by no means a new idea) and the world of exclusive private residences (which again have always existed, or at least for the last several centuries).

Something else that hasn't changed are the rules of the real estate business but we will repeat them for those who might have forgotten temporarily in the madness of the pre-crunch years:
Location – Location – Location (oh, and sensible debt/equity ratios help too)

In Europe, this represents a significant challenge for those who have not been sitting on an undeveloped prime land bank for the last ten years, and even if you have, things have just got much harder than you ever expected.

So, what should we look out for in 2009?

It is certainly not difficult to predict that there will be a slowing down of new projects and a delay in the opening/completion of some that are already underway. This much is easy, and, some might say, not so bad, all things considered. Successful mixed-use resort development is a long term thing and it pays to take your time to get it right, provided you have the patience and the pocket depth to wait for your returns over the medium to long term.

But will mixed-use resorts lose their lustre as real estate finance (both development and personal) becomes increasingly difficult to find?

As long as the planners are in charge of our destinies, then perhaps mixed-use is here to stay and we should embrace it as the future of tourism-based development whether urban, beach, rural or anything else.

The reality for many is that the planners will often only allow residential development on the understanding that the project includes a decent chunk of transient accommodation to create "life" and, perhaps more mundanely, jobs.

As part of managing development risk, there will be a move away from off-plan and we will see the radical departure of handing over keys to a finished unit.

The economic upheaval will create some real market opportunities as the combination of a down-turn in spending and banking pressure may create some forced sellers of assets that you would not normally expect to come to market.

Don't discount fractional interests and other shared ownership models. In many ways you could argue that their time has come at last in Europe, through a combination of increased exposure and the impact of tightened belts and lower levels of disposable income. However, don't under-estimate the fundamentals of something that is not sold with a pure real estate pitch. Everybody understands capital appreciation of real estate, but making it cheaper by splitting it into smaller pieces doesn't make it easier to sell, it makes it much more difficult. And what's more, shared ownership models will not necessarily fix a poorly-conceived project. The Second EU Timeshare

Directive has recently been published - will this be the opportunity for timeshare to become main stream in Europe?

Who will be buying in 2009? I talked to **JP Miramont, Executive VP of resort real estate specialists Playground.**

"Value needs to exceed price more than ever in today's market. Many projects around the globe have lost sight of that in recent years. 2009 needs to be about innovation and understanding the buyer, and demanding deeper consumer insight at the earlier planning stages of the development process. Affordability will be a driving issue for many, and prices won't be the only factor; consumers are more concerned about total cost of ownership, available cash flow and access to credit. Demand for primary residential housing and mixed-use development will be fuelled by the need for well-located properties close to jobs and retail, energy efficient design will become more of a priority, and long-term planning will be more front-of-mind for the consumer. Golf courses and spas are no longer differentiating factors; focus needs to be on integrating the resort components to allow for varying degrees of consumer affluence, while still maintaining an authentic and exclusive experience. "

Mixed-used resorts should adapt their product to three target markets:

The investors: a lot of logic, ROI, a true alternative to money in the bank. **The future" relocators":** those buying in the prospects of their future retirement; but beware this is not a retirement home they want.
The UHNWIs: They are looking for a toy; it is like buying a new car. Each component needs to be branded (restaurants, furniture, bathroom appliances, etc.). Key words – iconic, limited supply, customization.

One of the vital platforms of successful mixed-use development is an integrated legal structure that provides balanced sharing of rights and obligations between all key stakeholders. What are the issues for 2009?

According to **Eric Gummers, Partner in Howard Kennedy and head of their Hotel & Leisure Group,**
"There will be a great deal more "clubbing", i.e. JVs, shareholder agreements, cross-holdings, mezzanine debt.

Stakeholders will have to deal more than ever with solutions for when one of the components in the mix starts to under-perform. If the hospitality piece is the anchor, what will happen if standards fall or the operator changes? How will the parties resolve potential conflicts surrounding rights of access and management of overlapping interests?

We may also see some issues surrounding sinking funds that do not meet the needs of resort maintenance and the meeting of brand standards.

There will inevitably be instances of part-sold developments where the responsibility for maintaining common areas will cause conflicts between individual owners and developers (assuming they are still around).

Contracts will have to deal adequately with subordination and security issues on financing and what happens when hotel management agreements terminate/are terminated.
And we should not forget the differing expectations of long term and short term guests/residents. Perhaps there may even be a few broken promises when it finally comes to delivering the 24 hour concierge service or the Range Rover at the airport."

So, is there a recipe for success, even when times are tough? I believe there is.
You will need the **Right Stuff**

- **Place** (not just any place, a place with a story to be told)
- **Land** (with the right views and preferably not at a prohibitive cost)
- **Scale** (in line with proper market depth analysis)
- **Phasing** (without undue disruption of the resort experience)
- **Authentic experiences** (this is what people buy, not suites or square metres)
- **Business Model Mix** (balance risk with reward, build in a fall back position)
- **Marketing strategy** (as always, know your customer today and your customer of tomorrow)
- **Legal structure** (be conscious of over-lapping interests of all stakeholders)
- **Financing structure** (adequate equity and debt structured in line with business model risk)
- **Operators** (choose your brands carefully, all have both strengths and weaknesses)

And what about the right time? Well, if you have all these things in the right balance, perhaps it is always the right time.

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